

DEPARTMENT OF TAXATION

2002 Fiscal Impact Statement

1. **Patron** Williams

3. **Committee** Senate Finance

4. **Title** Retail Sales and Use Tax: State Sales and
Use Tax Increase in the Hampton Roads
Transportation District

2. **Bill Number** SB 668

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would authorize a 1½ percent state sales and use tax increase in the Hampton Roads Transportation District. This bill also establishes the Hampton Roads Transportation District and the Hampton Roads Transportation District Fund. The sales tax increase authorized by this bill is contingent upon approval of a referendum vote within the Hampton Roads Transportation District. All revenues generated by the tax increase would be deposited in the Hampton Roads Transportation District Fund and used solely to fund transportation projects in the district.

This bill also authorizes the issuance of Commonwealth of Virginia Transportation Revenue Bonds in the amount of \$6.59 billion.

The effective date of this bill is July 1, 2003, contingent on referendum approval.

6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2001-02	\$0	GF
2002-03	\$702,900	GF
2003-04	\$68,000	GF

7. **Budget amendment necessary:** Yes.

Item 283, Department of Taxation.

8. **Fiscal implications:**

Administrative

There are costs associated with modifying the system to implement this legislation. TAX is currently in the process of replacing its automated systems as part of a

partnership with AMS. As a result, TAX will be maintaining two systems – the current STARS system and the new IRMS system – for a period of time as a contingency. The contract with AMS generally provides for the costs of implementing routine legislation. However, changes attributable to major legislation are not within the scope of the contract.

Because the scope of this legislation is significant, systems changes will not be paid through the AMS contract. Current systems costs to implement this bill would be \$659,800 in FY 03, and other administrative costs such as forms development, postage and personnel would be \$43,100 in FY 03. Administrative costs for FY 04 would be \$68,000.

Revenue

The amount of additional local revenue, if any, resulting from the passage of this bill is unknown. The magnitude depends on whether voters in the Hampton Roads Transportation District approve the referendum vote in the November 5, 2002 election. If the referendums are approved in both Districts, revenues are estimated to increase in FY 04 by \$196.8 million for Hampton Roads Transportation District.

The preceding estimates should be regarded as **very preliminary** because there is no available data on the distribution of food sales taxed at the reduced rate by the localities, and the estimates herein are based on statewide figures.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Treasury
Department of Accounts
Hampton Roads Transportation District

10. Technical amendment necessary: None.

11. Other comments

Generally

All localities in the Commonwealth currently impose a 1 percent local sales and use tax, which is collected and remitted along with the 3½ percent state retail sales and use tax. This bill would increase the state sales and use tax by 1½ percent in the Hampton Roads Transportation District, upon referendum vote approval.

This bill establishes the Hampton Roads Transportation District, which would consist of the counties of Isle of Wight, James City, and York and the cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg.

The tax increases proposed by this bill are applicable to both the state sales and use tax. This means that items of tangible personal property purchased in localities that do not impose the additional state tax, and used and consumed in localities which do impose an additional sales and use tax, will be subject to the additional tax in the locality of use. The use tax is applicable to businesses as well as individuals.

Sales of Food for Human Consumption

The additional state sales and use tax imposed in the Hampton Roads Transportation District would not be applicable to food purchased for human consumption.

Sales Made Through Vending Machines

In situations where the collection of the tax on sales proves to be impractical, i.e., vending machines sales, upon permission from the Tax Commissioner, vendors may pay the 4½ percent sales and use tax on the wholesale cost of items sold. The state sales and use tax increase authorized by this bill in the Hampton Roads Transportation District would be applicable to items sold through vending machines. Provided the referendum is approved, persons operating vending machines in the Hampton Roads Transportation District, upon approval from the Tax Commissioner, will be required to pay tax on the wholesale cost of items at the rate of 6 percent.

Disposition of Revenues

The revenue derived from the state sales and use tax increase in the Hampton Roads Transportation District imposed in this bill will be deposited in the Hampton Roads Transportation District Fund and used to fund transportation projects in the district.

The fifth enactment clause specifies that revenues generated from the passage of this bill will not diminish or replace allocations or appropriations for transportation from other sources.

Similar Legislation

House Bill 17 would impose a ½ percent local sales and use tax increase statewide to be used for public school construction and renovations.

House Bill 451 authorizes localities to impose a ½ percent local sales and use tax increase upon referendum vote approval. All revenues to be used solely for education purposes.

House Bills 656, 657 and 1163 authorize a 1 percent state sales and use tax increase in the Northern Virginia Planning District upon referendum vote approval (Revenues to be used for education and transportation purposes). House Bill 656 also authorizes a ½ percent local sales and use tax increase in any locality of the Commonwealth upon

approval in a referendum vote within the locality (Revenues to be used solely for education purposes).

House Bill 1019 and 1170 impose a 1 percent state sales and use tax increase statewide, with revenues to be used for education purposes.

House Bill 1295 and Senate Bill 667 authorize localities in the Northern Virginia Transportation District and the Hampton Roads Transportation District to impose an additional 1 percent state sales and use tax to be used for transportation projects.

House Bill 1296 authorizes localities in the Eighth Planning to impose an additional ½ percent state sales and use tax to be used to fund transportation projects.

Senate 170 authorizes a ½ percent statewide state sales and use tax increase, the revenues to be used for education purposes. This bill also authorizes a ½ state tax increase in the Northern Virginia Planning District upon referendum vote approval, the revenues to be used for transportation purposes.

cc : Secretary of Finance

Date: 01/27/02/WBS

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